

NCFA Staff Paper “Fully Burdened Life Cycle Cost”

WHAT THIS IS: The NDAA 15 language reflects the term “Fully Burdened Life Cycle Costs” under considerations for the commission. The Reserve Forces Policy Board introduced the term in their reporting. The NCFA staff conducted research in industry, academia, and within DoD for “Fully Burdened Life Cycle Cost” to assess validity of use for of the commission’s costing activities.

BACKGROUND INFORMATION: The Government Accountability Office publishes standard terms, definitions, and classifications for government fiscal, budget, and program information; the Financial Management Regulation, the Federal Acquisition Regulation, and DoDI 7042.04 define methodologies for calculating burdened labor rates, but none of them list the term “Fully Burdened Lifecycle Costs”. Research in industry and academia did not yield a definition or methodology backed up by analytic rigor related to the term.

POSITION/PERSPECTIVE: The United States Army does not use “fully burdened costs” in planning, programming, and execution of the Army budget. However, a “burdened labor rate” is used as part of analyzing alternative courses of action during budget formulation. When the Army is faced with a specific set of alternatives, relative costs associated with each alternative must be considered even when cost is not the only factor.

The implementation of “fully-burdened cost” is highly dependent on the scope of analysis and its intended audience. Every analysis must be scoped to focus on the relevant factors. When two alternatives are compared, costs which are different between the two must be considered; however, costs which are fixed across the alternatives can be left out of the analysis as these costs are not differential in the decision making process.

When analyzing alternatives, a robust discussion between stakeholders on what costs should be included and what costs are independent of the decision helps to yield the optimum cost estimate.

Therefore, while the Army routinely utilizes burdened labor rates in order to facilitate workforce mix decisions, cost benefit analyses, and course of action analysis, the Army (and all other Department of Defense elements) does not calculate a universal or “fully burdened” cost factor for use in all decision making.

ACTIVITY BASED COSTING: Activity Based Costing is a method of estimating cost by determining a current per capita (per person, per mile, etc) cost and applying that cost to a future population or level of activity. “Fully Burdened Lifecycle Cost” is not an established, repeatable methodology and therefore, not a useful tool for the commission in budgeting or cost estimating. Activity Based Costing provides an explainable and

repeatable method for projecting and estimating future costs. The Institutional subcommittee proposes the commission follow the Activity Based Costing process.